

Detroit Industrial Market Overview

Market Observations

Economy

- The Detroit Metro unemployment rate climbed to 4.1% in November 2023 from a low of 2.9% in June. Year-over-year the unemployment rate is up 0.20%. The uptick was the result of job losses in the service sector and manufacturing sector.
- For industrial using employment, the manufacturing sector saw the largest drop in employment, posting a 2.3% drop from the same time last year.
- Trade, transportation and utilities employment fell 0.05% from the same time last year. Construction, on the other hand, showed gains jumping by 2.4%.

Major Transactions

- DSV Logistics pre-leased 407,088 SF of Ashley Capital's new 628,000 SF Crossroads Distribution Center 11 in Belleville.
- Thai Summit leased 297,100 SF in NorthPoint's newest development the Eastland Commerce Center 1 in Harper Woods. The development will also include Eastland Commerce Center 2 & 3 for a total of over 1 million SF.
- Amazon leased 258,307 SF in Wixom Assembly Park - Building D in Wixom - the fourth building constructed in the park totaling over 1.4 million leased SF.

Leasing Market Fundamentals

- Metro Detroit's industrial vacancy rate climbed 20 basis points to 3.3% during the fourth quarter of 2023 as just over 113,000 SF were absorbed.
- New speculative construction totaling 668,973 SF which was 65% leased and added 239,600 SF of vacant inventory to the market during the quarter. Bulk warehouse accounted for nearly all spec development completions during the quarter.
- Leasing activity in the industrial market showed a decline in volume, and industrial users are vacating buildings at an increased rate. The trend is most prevalent in mid-sized general industrial buildings ranging from 20,000 SF to 80,000 SF.

Outlook

- Another 4.7 million SF are under construction and slated for completion in 2024. Bulk warehouse makes up 75% of developments under construction, while general industrial or manufacturing makes up 25%.
- While EV's captured 8.9% of auto sales during the third quarter of 2024, up from 6.2% last year, the pace of growth is weaker than the Big Three anticipated. Weakness in the electric vehicle market will curb investment into new production facilities and new contracts to suppliers, further reducing demand for industrial space.
- Of the 4.7 million SF under construction, 2.6 million SF is speculative bulk warehouse construction that is 90% complete. The new inventory will add a considerable supply of available space for distribution/logistics users, where demand has been high and existing supply scarce.

1. Economy
2. Leasing Market Fundamentals

4Q23

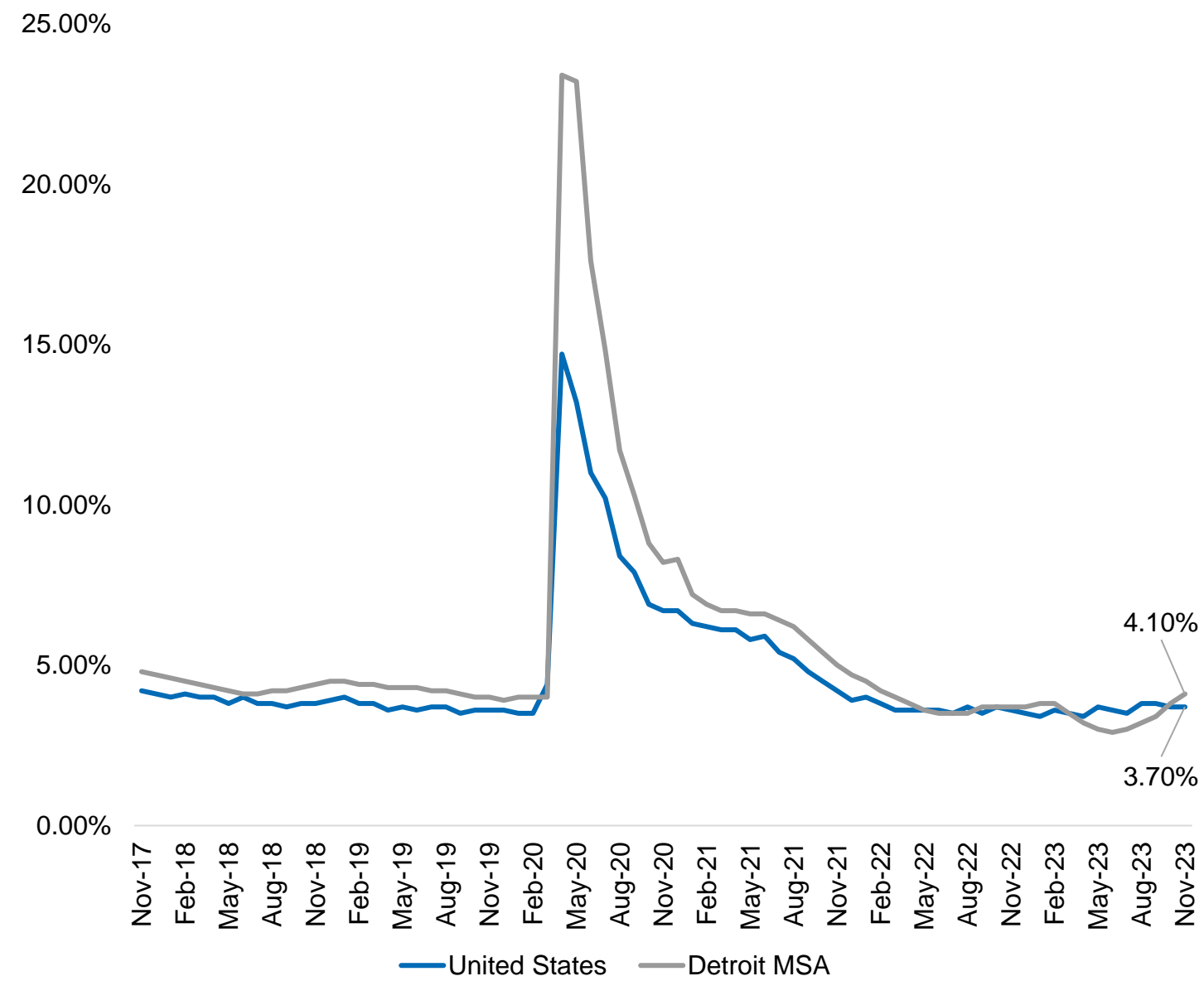
Economy



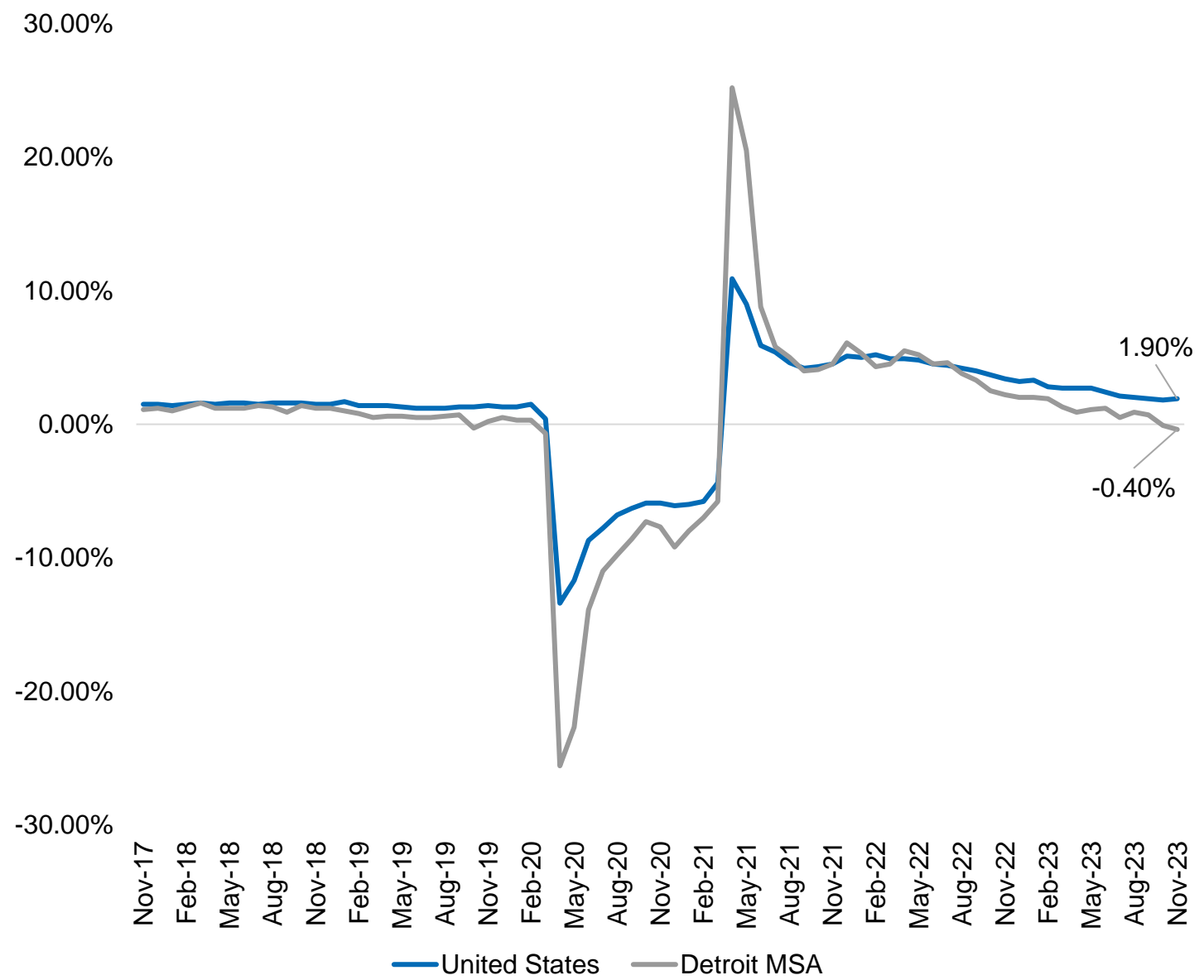
Metro Employment Trends Signal A Slowing Economy

The Detroit Metro labor market saw an uptick in unemployment, rising 90 basis points to 4.1% from August to November 2023. Year-over-year employment in Metro Detroit is down 0.40% as the Big Three announced layoffs during the end of summer.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



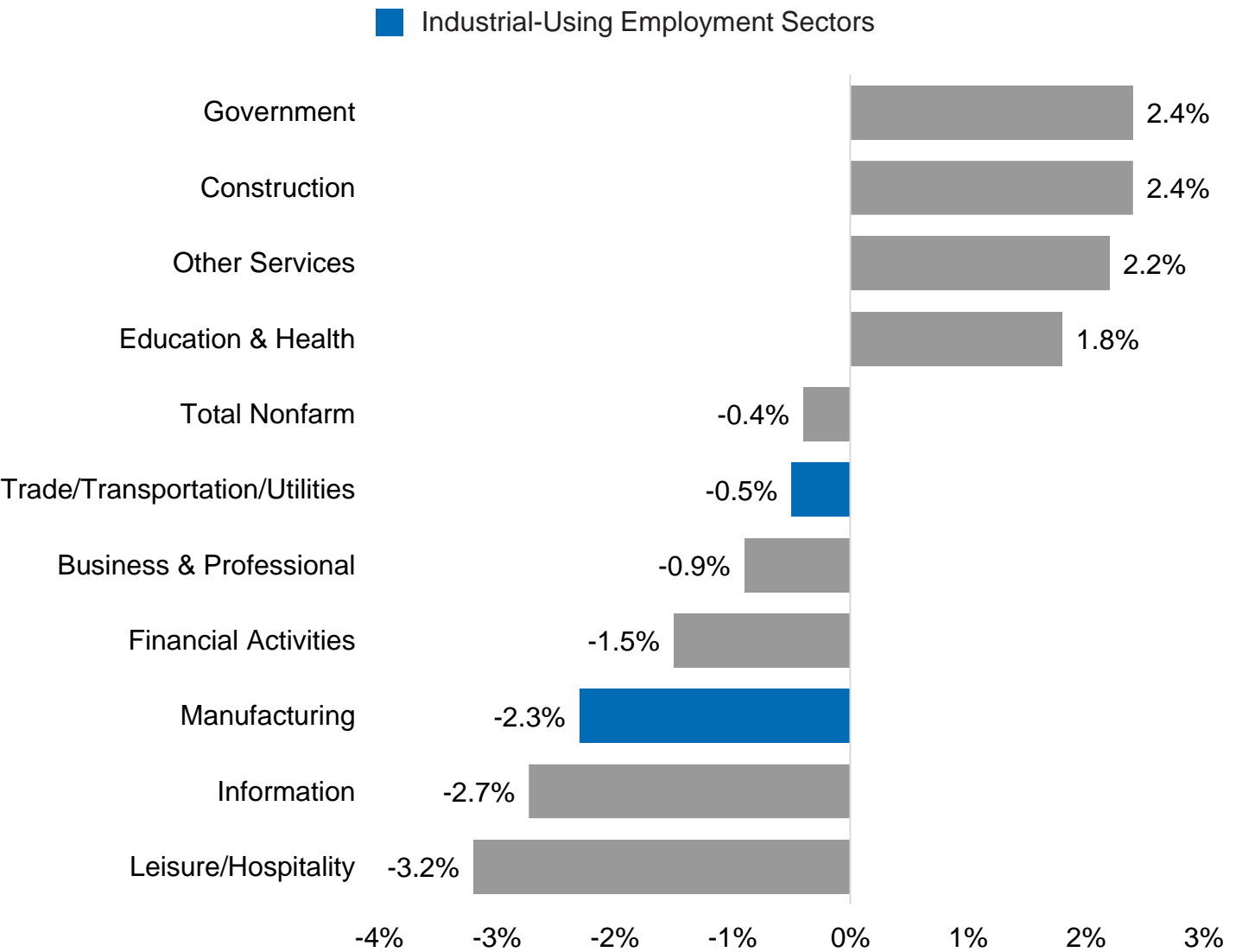
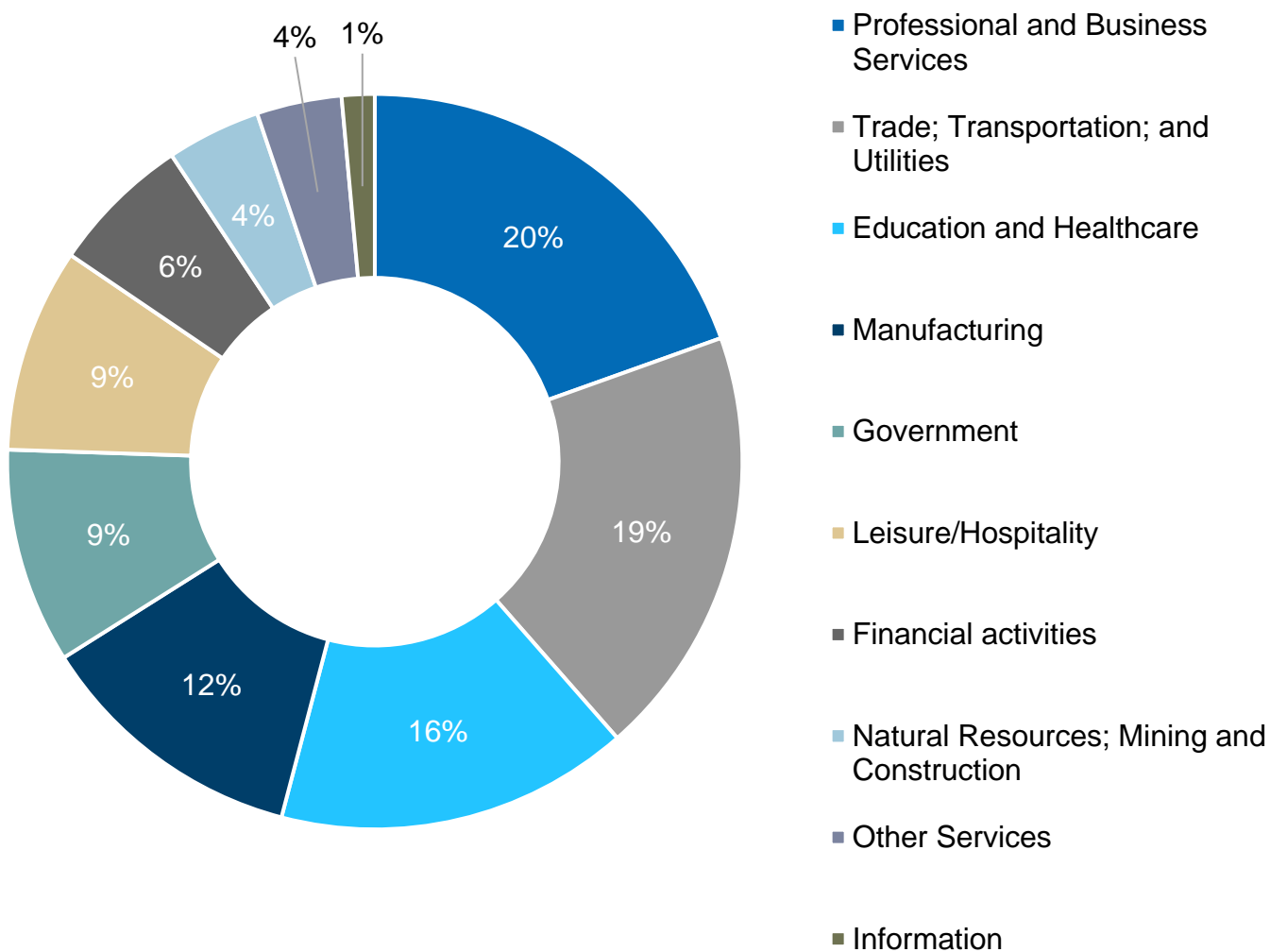
Source: U.S. Bureau of Labor Statistics, Detroit MSA

Metro Employment by Sector

Manufacturing employment, as well as trade/transportation/utilities, saw a decrease in employment. The declines were exacerbated by autoworker strikes in the fall that followed numerous layoffs.

Employment by Industry, November 2023

Employment Growth by Industry, 12-Month % Change, November 2023

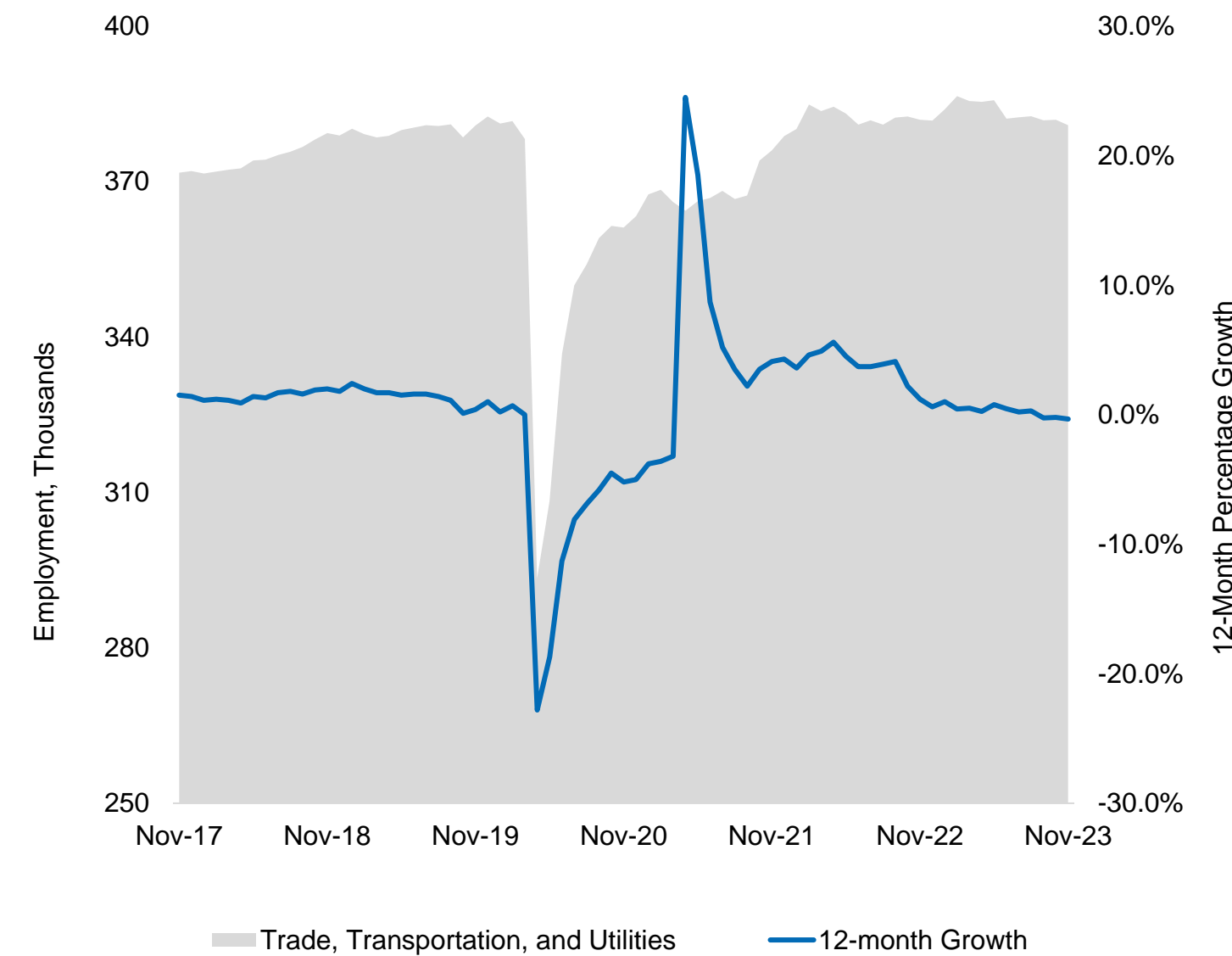


Source: U.S. Bureau of Labor Statistics, Detroit MSA

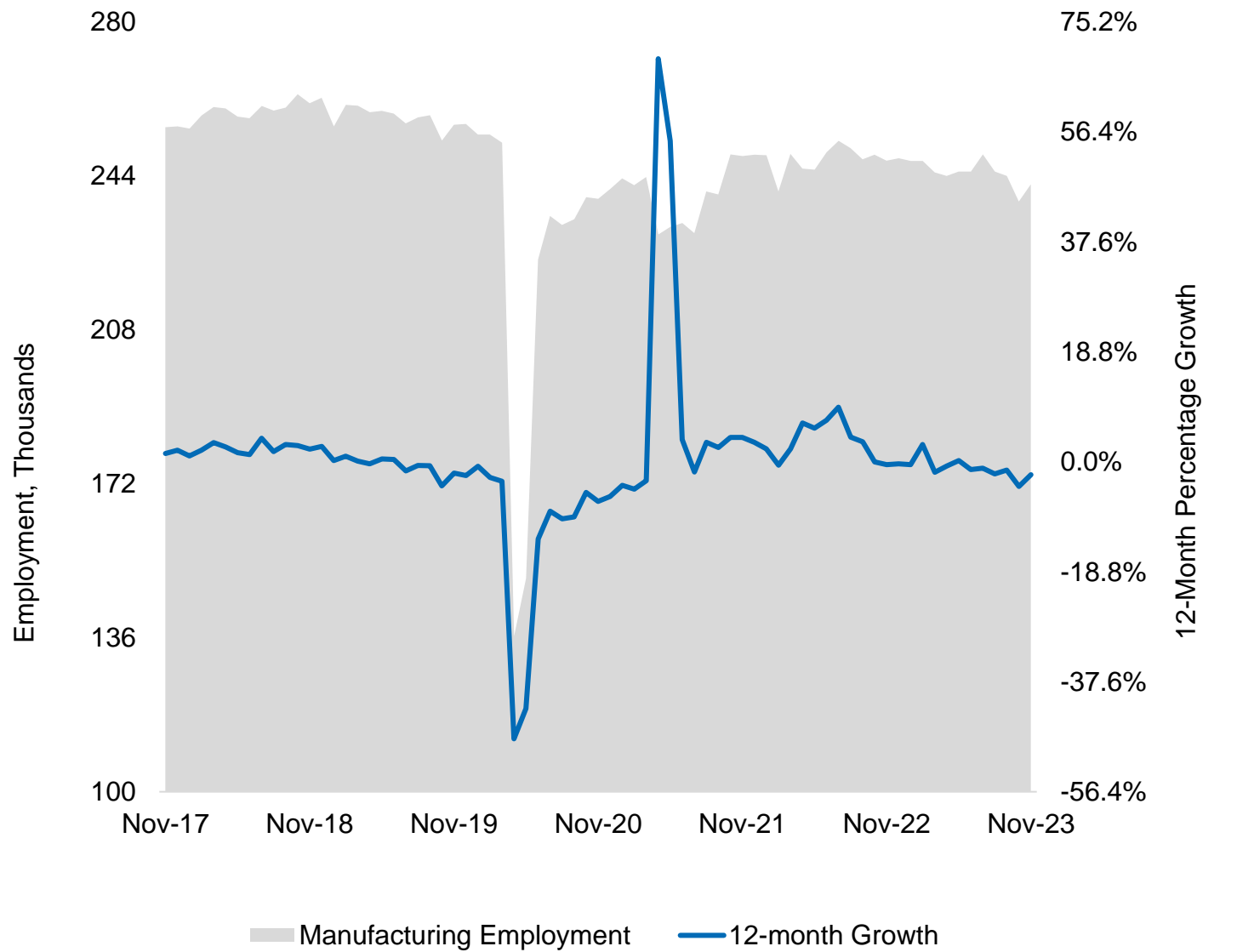
Industrial Employment Weakening

Two key industrial employment sectors, trade/transportation/utilities and manufacturing, post declining employment. Both sectors continue to be up against inflationary forces, reducing consumer demand for most goods. With inflation cooling on costs of components and energy, these sectors could see renewed growth.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Detroit MSA

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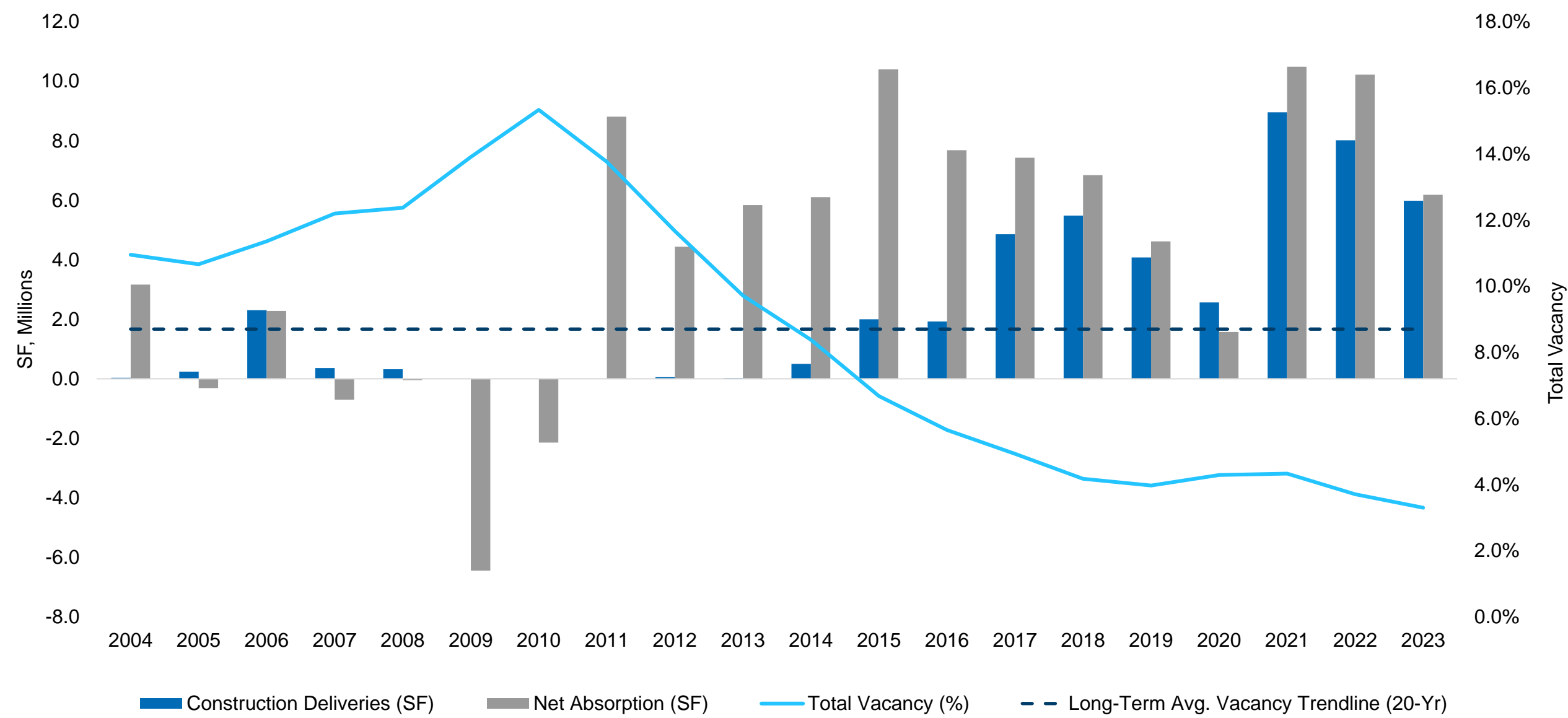
Leasing Market Fundamentals



Industrial Slowdown Likely Coming in 2024

The Metro Detroit industrial vacancy climbed 20 basis points to 3.3% during the fourth quarter of 2023. New construction completions added 668,973 SF of new inventory, while net 113,511 SF was absorbed. Indicators are showing a slowdown is underway and will likely continue into 2024. The Big Three are scaling back investments in electric vehicles, submarkets are seeing an increase in availabilities, leasing activity is trending downward and sublease space is creeping up.

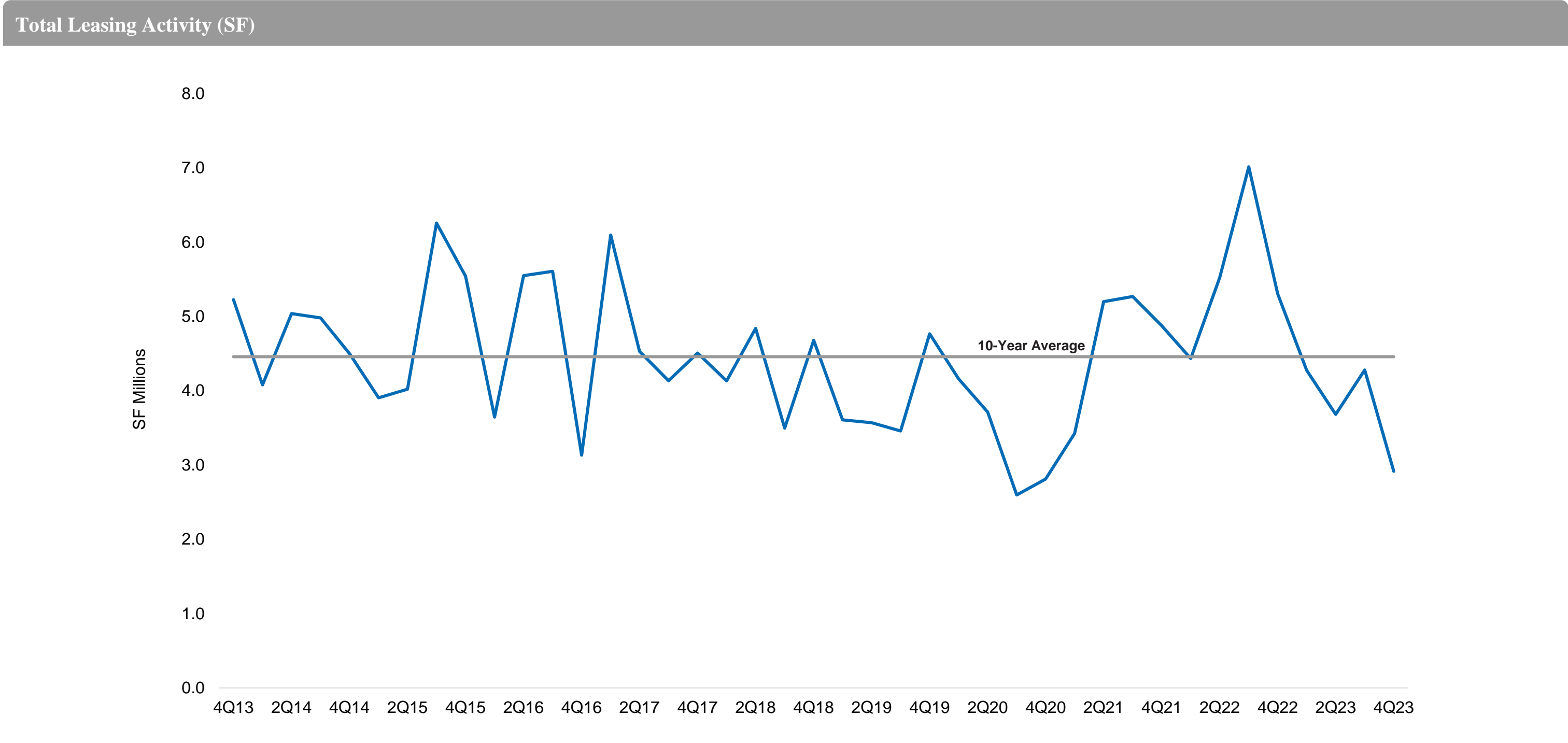
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

More Evidence of Slowing Industrial Market

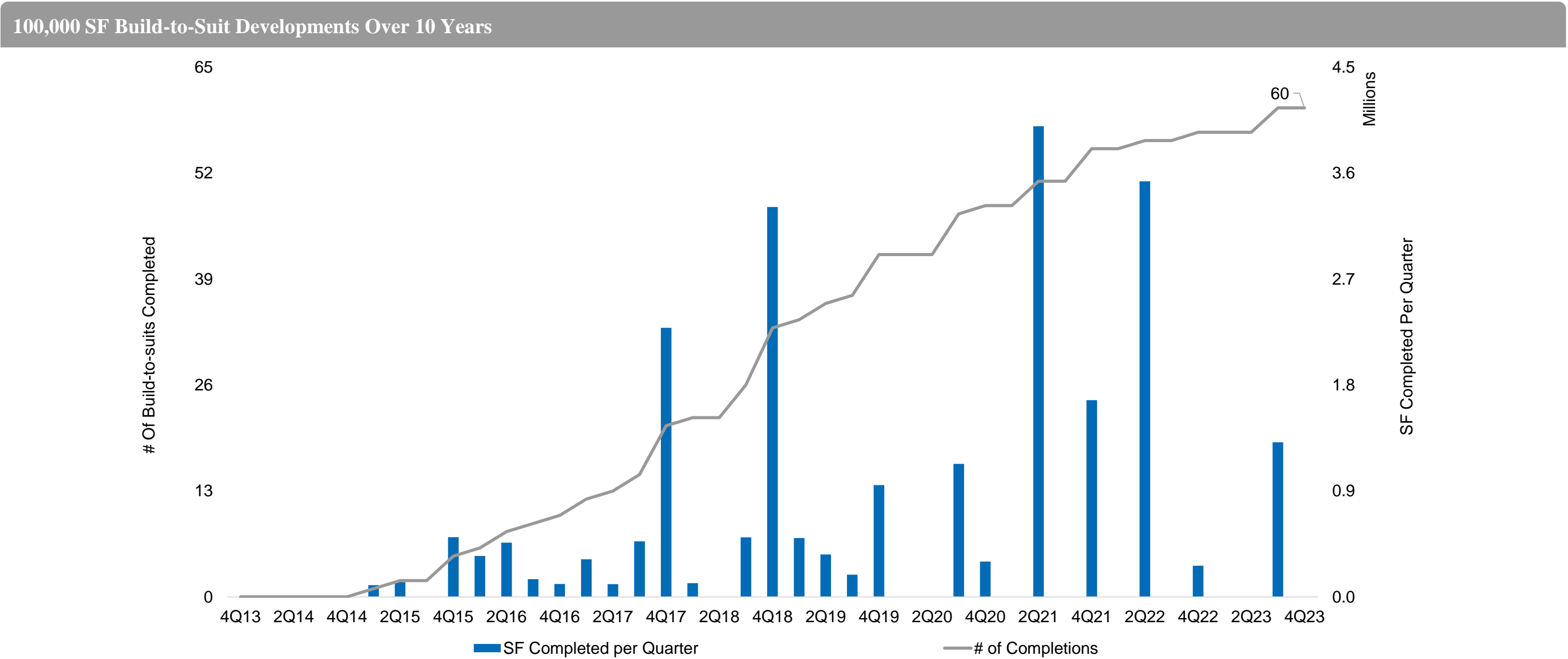
Leasing activity declined for the second consecutive quarter. High interest rates have slowed the Detroit Metro economy. In addition, labor strikes curbed car production and stymied supply contracts with suppliers.



Source: Newmark Research, CoStar

Build-to-Suit Construction Leveling Off

Over the past 10 years, 60 build-to-suits over 100,000 SF have been completed. The number of BTS developments has begun to level off, compared to 2016 to 2020 levels, due to high interest rates, construction cost and a general weakening of the economy. Currently, Target is beginning a 180,000-SF warehouse facility on Eight Mile in Detroit. This follows General Motors constructing a 790,000-SF facility at the former AMC Headquarters in Detroit. FANUC America Corporation and Magna are nearing completion on 655,000SF and 285,000SF facilities.

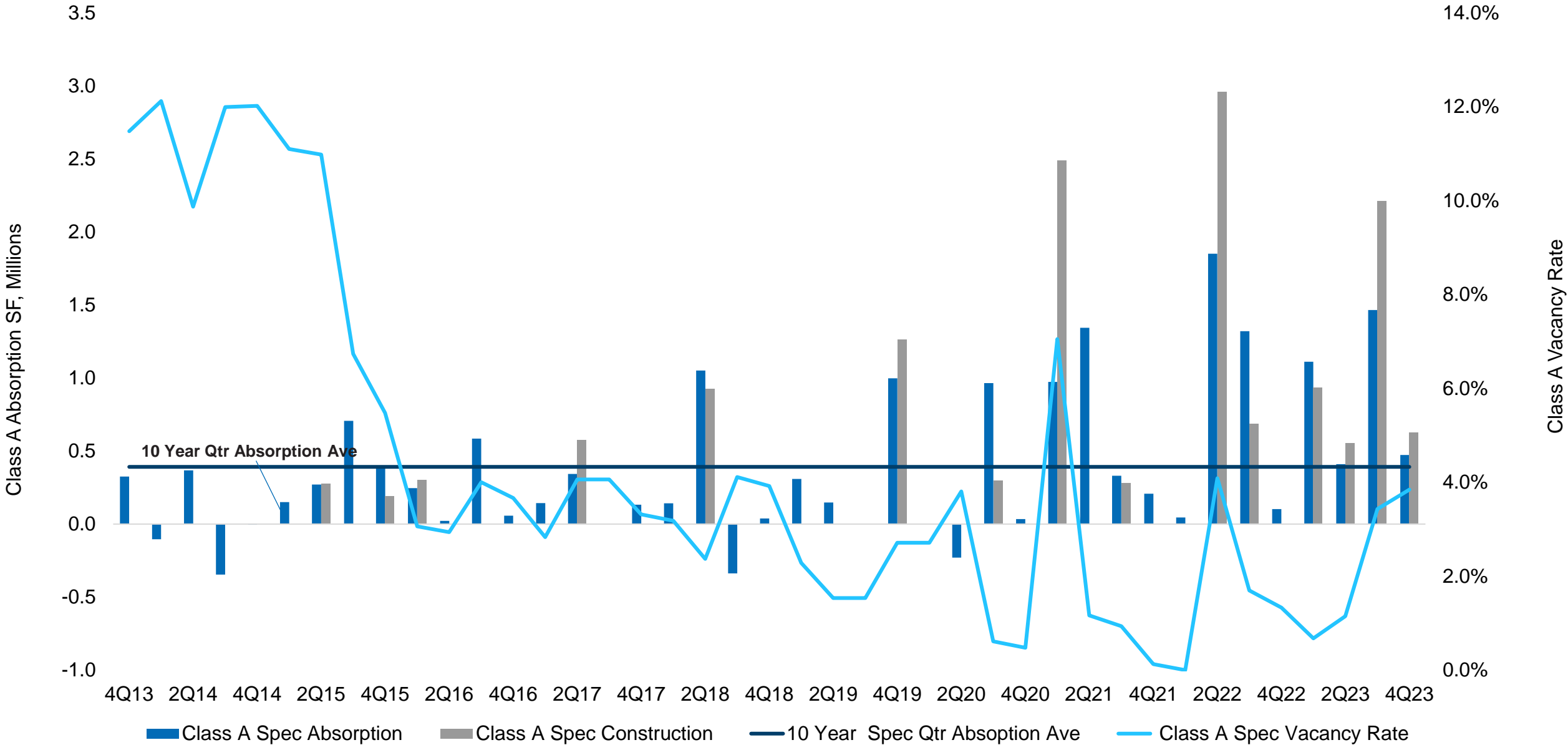


Source: Newmark Research, CoStar

Class A Speculative Bulk Warehouse

Three Class A speculative bulk warehouse buildings were completed during the fourth quarter of 2023, totaling 626,300 SF. The 297,100-SF Eastland Commerce Center 1 was fully leased to Thai Summit; Chesterfield Corporate Center, totaling 179,200 SF, was half leased to RoboVent; the 150,000-SF Lyon Distribution Center 2 remains vacant. Demand outpaced supply in 2023. Construction completions totaled 5.9 million SF, while 6.1 Million SF was absorbed. Another 2.6 million SF are currently under construction and are 90% complete.

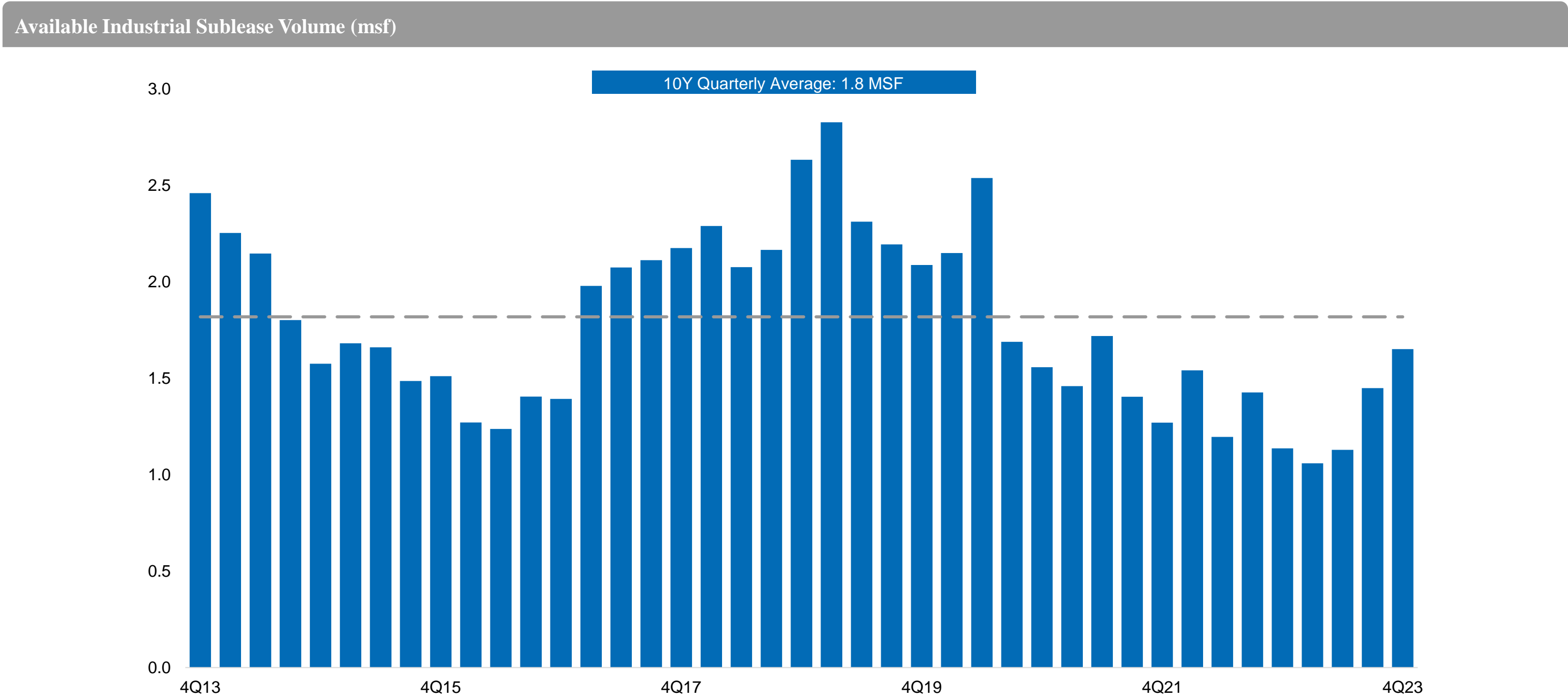
Industrial Class A Leasing/ Construction Volume and 10 Year Quarterly Absorption Average



Source: Newmark Research, CoStar

Industrial Sublease Availability Ticks Up

Available sublease space climbed four straight quarters in 2023 to 1.65 million SF, climbing 591,000 SF for the year. Levels are still below the 10-year average of 1.8 million SF of sublease space. The market could see additional sublease space added to the market if the current slowdown in the manufacturing sector continues.

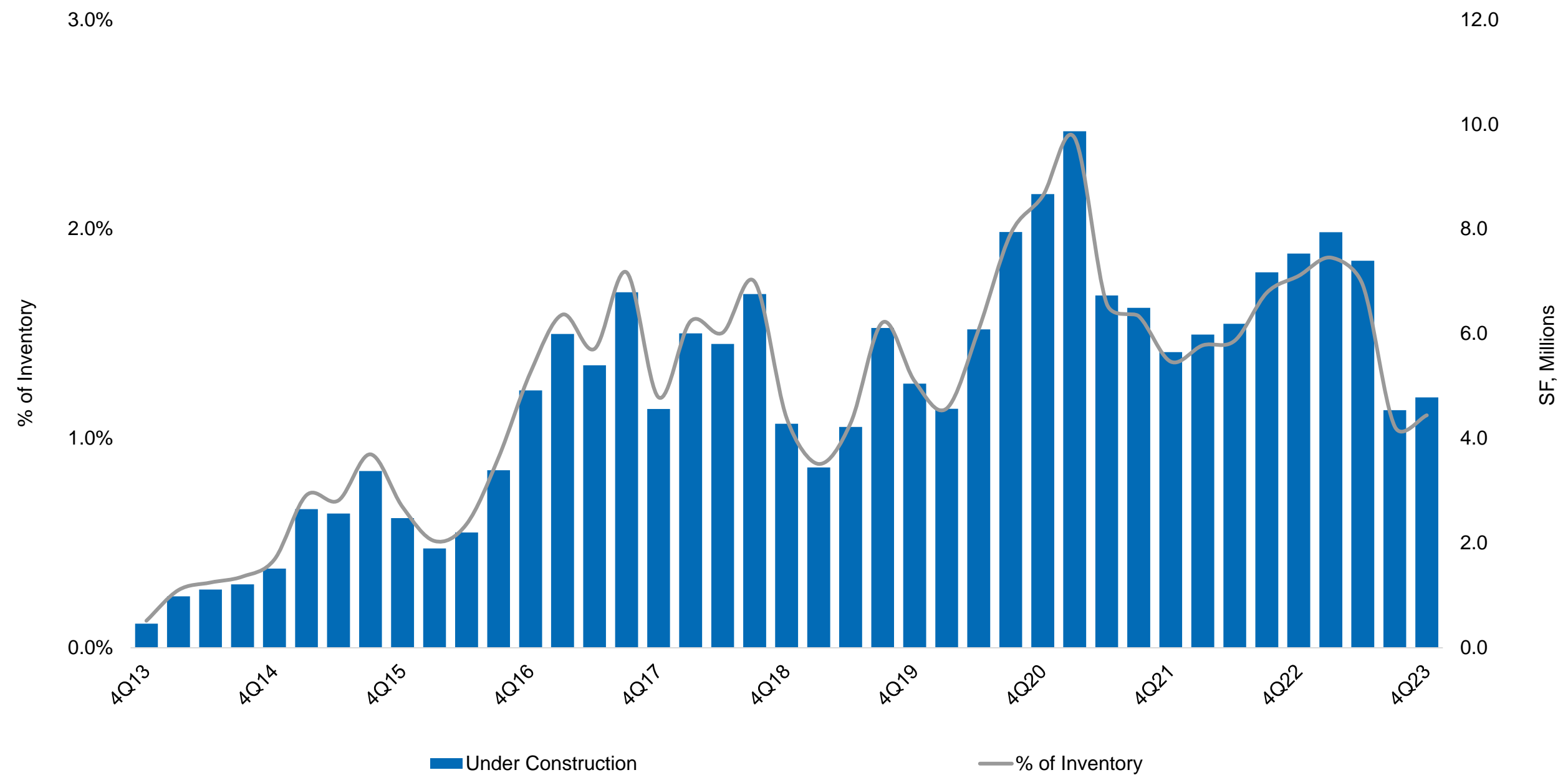


Source: Newmark Research, CoStar

Industrial Supply Pipeline

Metro Detroit industrial completions totaled 27 buildings and over 5.9 million SF in 2023; 17 of the completed buildings were over 100,000 SF. Another 4.7 million SF are under construction and slated for completion in 2024. Bulk warehouse makes up 75% of developments under construction, while manufacturing makes up 24%. Cutbacks in EV investments by the Big Three have halted new production facilities. The General Motors planned 715,000-SF EV supply plant at the former site of the Palace of Auburn Hills has yet to start construction.

Industrial Under Construction and % of Inventory

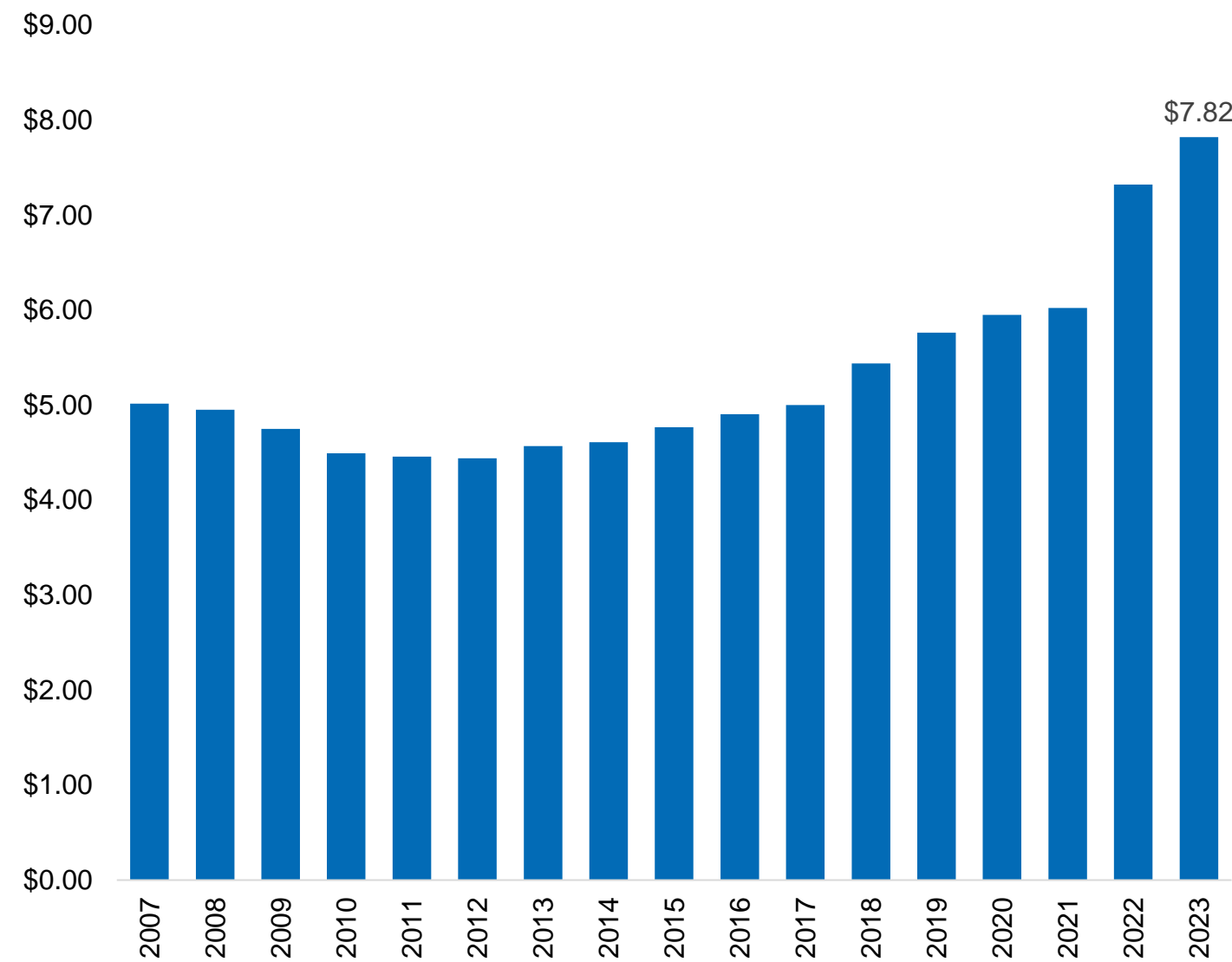


Source: Newmark Research, CoStar

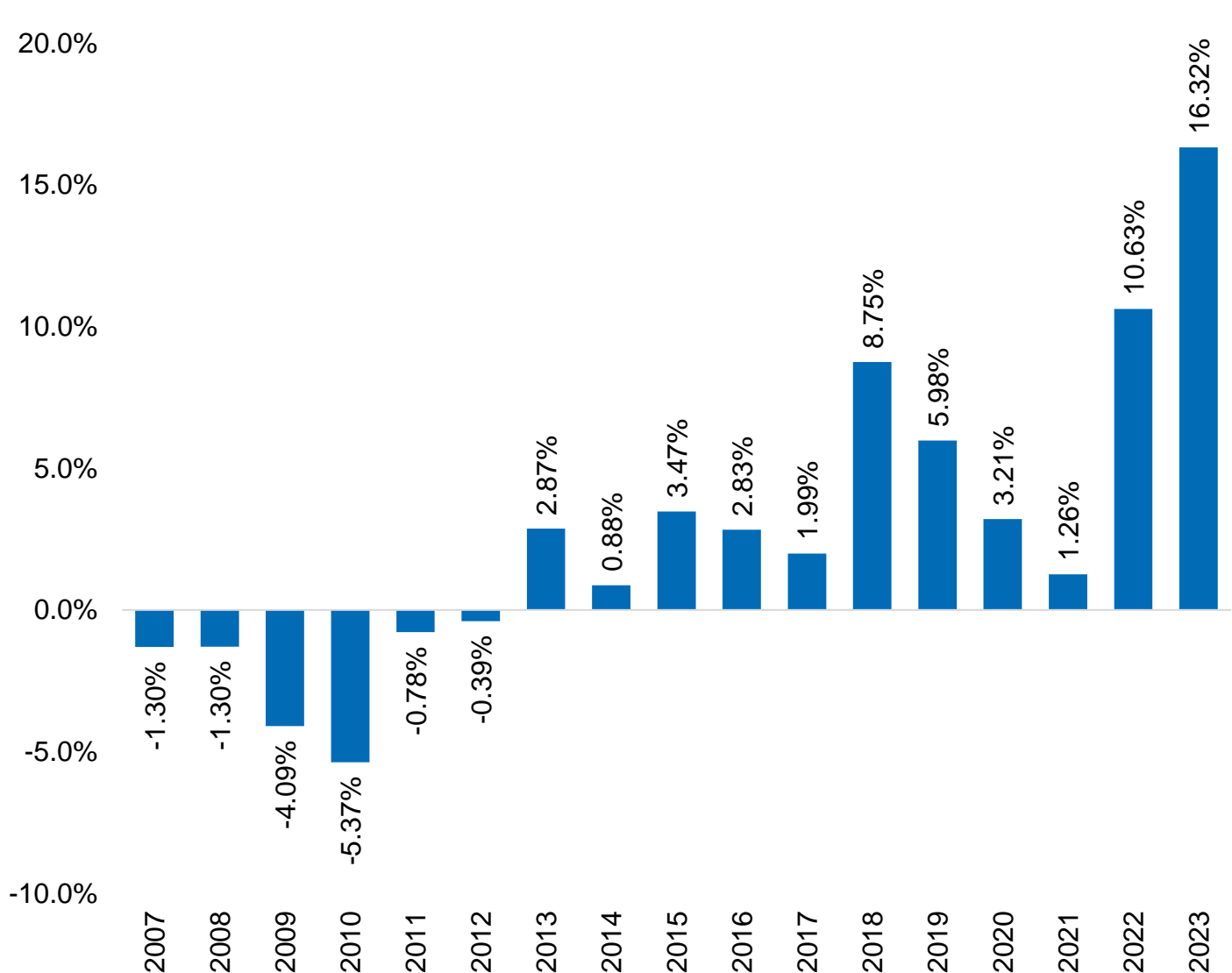
Record-Pace Industrial Asking Rent Growth Continues into the Second Quarter of 2023

Overall asking rates are up considerably from the previous year. The average asking rate is up 16.32% to \$7.75/SF from a year ago and nearly 27% from two years ago. Bulk warehouse is seeing the greatest increase, with rates up 20.0% to \$8.48/SF from a year ago and nearly 40% from two years ago.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 4Q23 Lease Transactions

With a scarcity of available space in the market, particularly bulk warehouse, a significant percentage of leasing activity is in newly constructed facilities. The five largest deals during the quarter were in distribution facilities.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
DSV Logistics <i>New Spec Construction</i>	Crossroads Distribution Center 11	Southern Wayne	Direct New	407,088
Thai Summit <i>New Spec Construction</i>	Eastland Commerce Center 1	Detroit	Direct New	297,100
Amazon <i>New Spec Construction</i>	WIXOM ASSEMBLY PARK - Bldg D	Southwest Oakland County	Direct New	258,307
Target <i>Build-to-Suit</i>	Eight Mile Road	Detroit	Direct New	180,000

Source: Newmark Research

4Q 2023 Overall Metro Detroit Industrial Market Stats

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Ann Arbor	5,741,479	0	3.7%	21,045	213,602	0	0	\$10.00
Detroit	51,779,796	2,006,098	11.2%	529,707	1,563,821	297,100	1,164,600	\$7.22
Livingston County	13,545,557	67,472	2.2%	11,165	236,214	0	0	\$7.74
Macomb County	89,387,203	51,595	1.7%	(339,912)	1,113,439	221,873	1,371,641	\$7.50
SE Oakland County	94,689,272	1,022,000	1.7%	(618,877)	(54,512)	0	354,484	\$8.75
Southern Wayne County	62,898,099	1,597,528	2.1%	418,122	2,021,093	0	1,715,678	\$6.47
SW Oakland County	41,668,182	0	4.2%	80,769	592,641	150,000	892,117	\$9.41
Western Wayne County	71,120,960	37,147	2.2%	11,492	498,845	0	482,593	\$7.37
Total	430,830,548	4,781,840	3.3%	113,511	6,185,143	668,973	5,981,113	\$7.82
By Property Type								
General Industrial	224,099,509	1,141,067	3.3%	146,175	1,627,218	42,673	794,244	\$7.58
Incubator	1,917,930	0	1.7%	(3,000)	(3,000)	0	0	\$7.35
R&D/Flex	42,922,337	37,147	5.9%	(303,528)	(297,441)	0	0	\$9.40
Warehouse/Distribution	161,890,772	3,603,626	2.5%	273,864	4,858,366	626,300	5,186,869	\$6.55
Total	430,830,548	4,781,840	3.3%	113,511	6,185,143	668,973	5,981,113	\$7.82

Source: Newmark

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